

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-06 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-03 SIL-01

PA-02 PRS-01 USIA-15 /105 W  
----- 041907

R 081955Z NOV 74

FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 5531  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL EDINBURGH  
USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 14654

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 8

BEGIN SUMMARY: INTEREST CENTERED THIS WEEK ON TUESDAY'S  
BUDGET. HINTS AS TO ITS CONTENTS CONTINUED TO BE  
AMBIGUOUS, BUT CHANCELLOR HEALEY SPOKE AT A NATIONAL  
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ECONOMIC DEVELOPMENT COUNCIL MEETING ON NOV. 6, AND

ACCORDING TO PRESS REPORTS, REMARKED ON THE NEED TO INDUCE RESOURCES TO MOVE TO THE EXPORT SECTOR, THE LACK OF SCOPE FOR INCREASES IN PERSONAL CONSUMPTION, AND THE NECESSITY OF A SLOWED GROWTH OF PUBLIC EXPENDITURE. WHILE UK RESERVE LEVELS INCREASED TO A RECORD HIGH IN OCTOBER AND THE UK TERMS OF TRADE IMPROVED, THE NEWS FROM THE DOMESTIC FRONT ONLY REINFORCED IMPRESSIONS OF WEAKENING DEMAND TRENDS. THE FINANCIAL TIMES MONTHLY BUSINESS SURVEY INDICATES WEAKENED BUSINESS SECTOR CONFIDENCE IN THE ECONOMIC OUTLOOK. INSTALLMENT CREDIT REMAINS ON A LEVEL GROWTH PATH, PRIVATE HOUSING STARTS ARE AT A 20-YEAR LOW, AND NEW ORDERS IN THE ENGINEERING INDUSTRIES HAVE FALLEN THROUGH JULY. THE POUND STRENGTHENED SLIGHTLY AGAINST THE DOLLAR BUT WEAKENED ON AN AVERAGE TRADE-WEIGHTED BASIS. THE GOLD PRICE INCREASED BY \$10 PER OUNCE TO \$178.25 OVER LAST THURSDAY'S (OCT 31) CLOSING PRICE. END SUMMARY

#### I. INTERNATIONAL

1. UK FOREIGN EXCHANGE RESERVES INCREASED BY \$377 (161 POUNDS AT OCTOBER 31 CLOSING MARKET RATE) IN OCTOBER. BORROWING OF \$500 MILLION OUT OF THE \$2.5 BILLION EURO-DOLLAR CREDIT LINE ARRANGED MARCH 1974 AND A PUBLIC SECTOR BORROWING OF \$10 MILLION HELPED OFFSET THE CURRENT ACCOUNT DEFICIT FOR THE MONTH. UK RESERVES ARE NOW AT \$7.5 BILLION, A RECORD HIGH. SEE LONDON 14413 FOR DETAILS.

2. UK TERMS OF TRADE ROSE IN SEPTEMBER FROM 79.1 TO 80. (1970 EQUALS 100), MAINLY AS A RESULT OF PRICE INCREASES IN EXPORTS AND PRICE STABILITY IN IMPORTS. THE UNIT VALUE INDEX FOR EXPORTS ROSE TO 173.0 IN SEPTEMBER FROM 171.3 IN AUGUST WHILE IMPORT UNIT VALUE FELL 216.0 FROM 216.5. IN VOLUME TERMS, HOWEVER, EXPORTS HAVE NOT GROWN FOR THE PAST SIX MONTHS.

#### II DOMESTIC

3. THE FINANCIAL TIMES MONTHLY BUSINESS SURVEY SHOWS A FURTHER WEAKENING OF CONFIDENCE ON THE PART OF THE BUSINESS SECTOR. THE NUMBER OF RESPONDENTS STATING THAT NEW UNCLASSIFIED

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ORDERS TREND FOR THE PREVIOUS FOUR MONTHS IS UP FELL FROM 57 PERCENT TO 46 PERCENT IN OCTOBER OVER SEPTEMBER, WHILE THOSE SAYING NEW ORDERS TREND IS DOWN ROSE FROM 21 TO 29 PERCENT. THE NUMBER EXPECTING PRODUCTION/TURNOVER TO RISE HAS DECREASED WHILE THE NUMBER EXPECTING PRODUCTION/TURNOVER TO FALL OR REMAIN ABOUT THE SAME HAS INCREASED. MOST RESPONDENTS EXPECT LABOR REQUIREMENTS TO FALL OR REMAIN AT ABOUT THE SAME LEVEL. FORTY PERCENT OF RESPON-

DENTS NOW EXPECT CAPITAL INVESTMENT TO DECREASE AS OPPOSED TO 30 PERCENT IN THE PREVIOUS SURVEY WHILE ONLY 28 PERCENT EXPECT IT TO INCREASE VIS-A-VIS 52 PERCENT IN THE SEPTEMBER SURVEY.

4. SOME HINTS ABOUT NEXT TUESDAY'S (NOVEMBER 12) BUDGET WERE GIVEN BY CHANCELLOR HEALEY IN A NATIONAL ECONOMIC DEVELOPMENT COUNCIL MEETING ON NOVEMBER 6. HEALEY REPORT-

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PA-02 PRS-01 USIA-15 /105 W

----- 041960

R 081955Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5532

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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PASS TREASURY

TEDLY STATED THAT THERE IS LITTLE OR NO SCOPE FOR INCREASE IN PERSONAL CONSUMPTION AND THAT PUBLIC EXPENDITURE GROWTH WOULD HAVE TO BE STRICTLY CONTROLLED AND KEPT BELOW THE GROWTH OF POTENTIAL CAPACITY. HEALEY EMPHASIZED THAT RESOURCES MUST BE INDUCED TO THE EXPORT SECTOR.

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5. CONSUMER CREDIT (HIRE PURCHASE) REMAINED VIRTUALLY LEVEL IN SEPTEMBER FROM AUGUST BUT IS 191 MILLION POUNDS LOWER THAN IN JANUARY 1974.

6. PRIVATE NEW HOUSING STARTS FELL TO 7000 UNITS IN SEPTEMBER, DOWN 2000 FROM AUGUST, THE LOWEST LEVEL IN 20 YEARS AND THE LOWEST SEPTEMBER FIGURE SINCE 1952. FOR THE THIRD QUARTER, PRIVATE HOUSING STARTS WERE DOWN BY EIGHT PERCENT OVER THE PREVIOUS QUARTER. PUBLIC SECTOR NEW HOUSING STARTS ALSO FELL DURING THE THIRD QUARTER OVER THE SECOND. THEY HAD IMPROVED CONSIDERABLY IN THE FIRST HALF OF THIS YEAR.

7. NEW ORDERS FOR THE U.K. ENGINEERING INDUSTRY HAVE SHOWN A DECLINING TREND IN 1974 THROUGH JULY ACCORDING TO RECENT PUBLISHED DATA. NEW EXPORT ORDERS ARE STILL STRONG BUT HOME MARKET ORDERS HAVE FALLEN FROM AN INDEX NUMBER 118 (1970 EQUALS 100) IN JANUARY 1974 TO 108 AT THE END OF JULY.

8. BANK LENDING TO INDUSTRY SHOWED ONLY A SMALL INCREASE FROM MID-SEPTEMBER TO MID-OCTOBER. BANK ADVANCES OF STERLING TO U.K. RESIDENTS ROSE DURING THAT PERIOD BY 126 MILLION POUNDS; THE PREVIOUS PERIOD SHOWED AN INCREASE OF 137 MILLION POUNDS. WITHIN THE LATEST MONTH'S INCREASE HOWEVER, THE PROPORTION OF ADVANCES TO THE MANUFACTURING SECTOR ROSE APPRECIABLY WHILE THOSE TO PROPERTY COMPANIES, OTHER FINANCIAL INSTITUTIONS, AND TO THE PERSONAL SECTOR FELL.

9. STERLING SHOWED SOME SLIGHT STRENGTH AGAINST THE DOLLAR, RISING FROM \$2.3380 LAST FRIDAY TO \$2.3470 ON THURSDAY'S CLOSING. THE TRADE-WEIGHTED DEPRECIATION OF STERLING WIDENED SLIGHTLY OVER THE WEEK FRIDAY TO THURSDAY FROM 18.7 PERCENT TO 18.8 PERCENT. THE GOLD PRICE ROSE SUBSTANTIALLY OVER THE SAME PERIOD, FROM \$168 TO \$178.25 PER OUNCE.

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PA-02 PRS-01 USIA-15 /105 W

----- 042013

R 081955Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5533

INFO AMEMBASSY BERN

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10. THE FORWARD DISCOUNT ON STERLING WIDENED FOR THREE  
AND SIX MONTH CONTRACTS WHILE THE ONE MONTH SPREAD RE-  
FLECTED ONLY MINOR VARIATIONS DURING THE WEEK.

	10/31	11/7	CHANGE
1 MONTH	0.70	0.70	UNCHANGED
3 MONTHS	2.20	2.35	UP 0.15

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6 MONTHS        4.55    4.85    UP 0.30  
(ALL FIGURES IN CENTS)

11. EURODOLLAR RATES REMAINED FAIRLY STABLE WITH THE  
GREATEST VOLATILITY WITNESSED IN THE SHORT TERM RATE.  
THE ONE MONTH RATE DROPPED TO 8-1/2 PERCENT ON WEDNESDAY  
(NOV 6) AFTER CLOSING FRIDAY (NOV 1) AT 10 PERCENT.

	10/31	11/7	CHANGE
1 MONTH	9-1/8	9-1/4	UP 1/8
3 MONTHS	10-1/8	10	DOWN 1/8
6 MONTHS	10-1/8	10	DOWN 1/8

12. THE LOCAL AUTHORITY DEPOSIT RATE EXHIBITED A DOWN-  
WARD DRIFT THROUGHOUT THE WEEK.

	10/31	11/7	CHANGE
1 MONTH	11-3/4	11	DOWN 3/4
3 MONTHS	12	11-11/16	DOWN 5/16
6 MONTHS	12-7/16	12-3/16	DOWN 1/4

13. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT  
11-1/2 PERCENT (SINCE SEPTEMBER 20).

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, ECONOMIC CONDITIONS  
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**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition Event:**  
**Disposition History:** n/a  
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**Errors:** N/A  
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EO Systematic Review  
30 JUN 2005

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**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 8 BEGIN SUMMARY: INTEREST CENTERED THIS WEEK ON TUESDAY'S  
**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005